

Message Text

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73

ACTION EB-07

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FM AMCONSUL KARACHI

TO SECSTATE WASHDC 9033

INFO AMEMBASSY ISLAMABAD

AMCONSUL LAHORE

UNCLAS KARACHI 1495

E.O. 11652: N/A

TAGS: ECON, EPAP, ETRD, PK

SUBJECT: TIGHT SITUATION IN COTTON EXPORT TRADE AND
COTTON TEXTILE INDUTRY EASES

REF: A. KARACHI 2192, 11/6/74

B. KARACHI 0500

SUMMARY: CRITICAL SITUATION FACED BY GOP COTTON EXPORT
CORORATION LAST YEAR PRINM# LARGE CARRY-OVER OF RAW COTTON
STOCKS FROM PREVIOUS YEAR COMBINED WITH RELATIVELY LARGE
NEW CROP HAS EASED OVER PAST SIX MONTHS DUE TO NEWLY FLEXIBLE
AND MORE REALISTIC GOP EXPORT POLICY. RAW COTTON EXPORTS
FOR FY 75 NOW PROJECTED AT 1.4 MILLION BALES AND CARRY-OVER
INTO NEXT YEAR AT 100,000 BALES. EXPORT EARNINGS ON ACTUAL
COTTON SHIPMENTS IN FY 75 PROJECTED AT DOLS145 MILLION.
PROBLEMS OF DEPRESSED PRICES OF COTTON YARN AND HIGH YARN
INVENTORIES WHICH HAVE PLAGUED SPINNING INDUSTRY OVER LAST
YEAR HAS ALSO EASED PARTIALLY DUE TO INCREASING DEMANDS
FROM FOREIGN MARKETS AND IN PART TO SUPPORT OF GOP TRADING
CORPORATION OF PAKISTAN. TCP OFFERS TO PURCHASE COTTON
YARN OVER PAST SEVERAL MONTHS HAVE SERVED TO BOLSTER MARKET
PRICE. INFORMED SOURCES BELIEVE TEXTILE INDUSTRY NOW THROUGH
WORST PERIOD AND THAT PRICES WILL CONTINUE FIRM. END SUMMARY
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1. RAW COTTON - CONGENOFF RECENTLY DISCUSSED COTTON SITUATION WITH KNOWLEDGEABLE CONTACT IN COTTON TRADE. HE ESTIMATED FINAL CROP FIGURES FOR COTTON YEAR 1974/75 (SEPTEMBER TO AUGUST) AT 3.9 MILLION BALES COMPRISED OF 3.5 MILLION BALES NEW CROP AND 400,000 BALES CARRYOVER FROM 73/74. OF THIS 3.9 MILLION BALES, HE EXPECTS 2.4 MILLION BALES WILL BE UTILIZED BY DOMESTIC TEXTILE INDUSTRY BY END OF CURRENT COTTON YEAR, LEAVING 1.5 MILLION BALES AS EXPORTABLE SURPLUS. OF THIS 1.5 MILLION BALES, THE COTTON EXPORT CORPORATION HAD SOLD 1.3 MILLION BALES AS OF LATE MAY, 1975. EXPORT SALES HAD BEEN SO BRISK THAT IN MARCH 1975 THE DOMESTIC TEXTILE INDUSTRY, WHICH WAS EXPECTING AN INCREASE IN SALES, REQUESTED AND RECEIVED A TEMPORARY HALT ON COTTON EXPORTS. THE CEC REPORTEDLY HAS NOW, ON GOP INSTRUCTION, GIVEN THE MILLS A DEADLINE OF JUNE 30 TO PROCURE WHATEVER COTTON THEY MAY WANT FOR OPERATIONS FOR THE REMAINDER OF THE COTTON YEAR. AFTER JUNE 30, CEC WILL AGAIN COMMENCE EXPORT SALES AND IS EXPECTED TO SELL 100,000 ADDITIONAL BALES BY THE END OF THE COTTON YEAR LEAVING ABOUT 100,000 BALES AS CARRYOVER.

2. THE CEC HAS SUCCEEDED IN SELLING COTTON THIS YEAR, PRIMARILY BECAUSE OF A FLEXIBLE ATTITUDE BY THE GOP WHICH ALLOWED IT TO SELL AT CURRENT WORLD MARKET PRICES. ACCORDING TO OUR SOURCE, CEC EXPORT SALES OVER THE YEAR WILL HAVE BEEN AT AN AVERAGE OF 35 CENTS PER POUND. AT THIS PRICE, CEC HAS BEEN OPERATING AT A NET LOSS SINCE 38 CENTS IS CONSIDERED THE BREAK-EVEN PRICE INCLUDING THE 35* EXPORT DUTY CHARGED BY THE GOP. THESE LOSSES WILL AT SOME POINT BE MADE UP BY FINANCIAL TRANSFERS FROM THE TREASURY BACK TO CEC.

3. OUR SOURCE CONFIRMED THAT THE COTTON MARKET HAS BEEN DEPRESSED THIS YEAR TO SUCH AN EXTENT THAT THE CEC S BUYING OF COTTON AT THE FLOOR PRICE OF 200 RUPEES PER MAUND HAS BEEN A VERY IMPORTANT PRICE SUPPORT MECHANISM. AT THIS SUPPORT PRICE 1.3 MILLION BALES OF COTTON HAVE BEEN PURCHASED BY CEC FROM GINNERS. HAD NOT THIS OR SOME OTHER SUPPORT SYSTEM BEEN INSTITUTED, THERE MIGHT HAVE BEEN A COMPLETE COLLAPSE IN THE PAK COTTON MARKET, WITH CALAMITOUS RESULTS FOR NEXT YEAR S COTTON PLANTING. WHETHER THE CEC WILL CONTINUE TO OFFER A FLOOR PRICE OF 200 RUPEES PER MAUND TO THE FARMER IN THE UNCLASSIFIED

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COMING YEAR HAS YET TO BE DECIDED. HOWEVER, OUR SOURCE REPORTS SOME CONCERN THAT PUNJAB FARMERS' COTTON PLANTINGS WILL BE SLIGHTLY LESS THIS YEAR THAN LAST.

4. FOREIGN EXCHANGE EARNINGS BASED ON ACTUAL SHIPMENTS OF RAW COTTON ARE PROJECTED AT DOLS145 MILLION FOR FY 1975. THIS IS A SIGNIFICANT INCREASE OVER THE DOLS38 MILLION IN EARNINGS FOR FY 1974.

5. COTTON YARN - SOURCES ON STAFF OF INFLUENTIAL ALL PAKISTAN TEXTILE MILLS ASSOCIATION (APTMA) REPORT THAT DESPITE BELATED GOP EFFORTS TO ASSIST AILING YARN SPINNING INDUSTRY IN OCTOBER 1974 (REPORTED REF. A), PRICES CONTINUED TO FALL, AVERAGE PRICE IN OCTOBER 1974 FOR AVERAGE QUALITY YARN WAS 51CENTS PER LB., WHICH FELL TO 42CENTS PER LB. IN MARCH 1975. CONTINUED SOFTNESS CAUSED INDUSTRY TO SEEK ADDITIONAL ASSISTANCE FROM GOP (REPORTED REF. B). ASSISTANCE CAME IN FORM OF OFFER BY TCP TO PURCHASE COTTON YARN ON PUBLIC TENDER BASIS. TCP INVITED TENDERS FOR TOTAL OF 10 MILLION LB. YARN IN MARCH AND APRIL. EFFECT OF TCP ENTERING MARKET WAS IMMEDIATE FIRMING OF YARN PRICES WHICH ROSE TO AVERAGE OF 47CENTS IN APRIL AND 48CENTS IN MAY. INCREASE IN DEMAND ABROAD FOR PAK YARN RESULTED IN ADDITIONAL UPWARD PRESSURE ON PRICES AND SOURCES NOW EXPECT YARN PRICES TO STABILIZE AT APPROXIMATELY 50CENTS PER LB. IN RESPONSE TO ON-GOING INDUSTRY PRESSURE, MINISTRY OF INDUSTRIES RECENTLY REQUIRED TCP TO CONTINUE ITS YARN PURCHASE EFFORTS.

6. OFFICIALLY SOME 300,000 SPINDLES OF COUNTRY'S 3.3 MILLION SPINDLES OF INSTALLED CAPACITY ARE NOW IDLE, BUT UNOFFICIALLY THIS FIGURE IS REPORTED TO BE SOMEWHAT HIGHER. A FEW SPINNING MILLS IN THE COUNTRY ARE STILL COMPLETELY SHUT DOWN, THESE ARE PRIMARILY "SICK" MILLS WITH ANTIQUATED, INEFFICIENT MACHINERY AND/OR LESS THAN COMPETENT MANAGEMENT. KNOWLEDGEABLE SOURCES OPINE THAT YARN SPINNING INDUSTRY UNLIKELY EVER TO RETURN TO BOOM SITUATION OF TWO YEARS AGO. THIS BOOM WAS DUE TO TREMENDOUS DEMAND IN WORLD MARKET COMBINED WITH EXCEPTIONAL COMPETITIVENESS OF PAK EXPORTS DUE TO MASSIVE DEVALUATION OF MAY 1972. IN PRESENT SITUATION THOSE MILLS PRODUCING QUALITY YARN STILL FIND MANY MARKETS FOR EXPORTS. MILLS PRODUCING LOWER QUALITY YARN EXPECTED TO BE PRIMARILY SUPPLIERS OF UNCLASSIFIED

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DOMESTIC REQUIREMENTS FOR "POWER LOOM" (SMALL INDUSTRY) SECTOR.

7. SOURCE IN TCP ADVISE THAT INDUSTRY RESPONSE TO FIRST THREE TCP TENDERS MUCH LESS THAN ORIGINALLY ANTICIPATED. INDUSTRY NATURALLY TENDERED HARD-TO-EXPORT, LOWER QUALITY YARNS FOR WHICH TCP OFFERED LOW PRICES. SINCE CLOSING OF TENDERS IN MARCH AND APRIL PRICES FOR YARN HAVE RISEN AND TCP NOW EXPECTS ACTUAL DELIVERIES, DUE 90 DAYS AFTER TENDER CLOSED, TO BE VERY SMALL, PERHAPS AS LOW AS 1 MILLION LBS. YARN PURCHASED UNDER THIS PROGRAM TO BE EXPECTED BY TCP ON GOVERNMENT-TO-GOVERNMENT BASIS TO FOREIGN STATE TRADING COMPANIES. HOWEVER, TCP ANTICIPATES EXPORTS UNDER THIS PROGRAM TO BE VERY SMALL. TCP'S ENTRANCE TO MARKET IN LAST FEW MONTHS HAS SERVED PRIMARILY AS SUPPORT MECHANISM FOR YARN PRICES AND IS NOT A MAJOR FACTOR IN ACTUAL EXPORT TRADE.

8. COMMENT: MARKET ACTIVITIES OF CEC OVER PAST YEAR AND TCP OVER PAST FEW MONTHS APPEAR TO US TO BE PRAGMATIC EFFORTS BY GOP TO SUPPORT PRICES IN DOMESTIC MARKET AND AVOID DISTRESS SALES OF COTTON AND YARN ABROAD. THESE ACTION CONTRAST FAVORABLY WITH GOP MISMANAGEMENT OF RAW COTTON EXPORTS AND HOSTILE ANTAGONISTIC GOP ATTITUDE TOWARD TEXTILE MILL OWNERS IN 1974 WHILE MUBASHIR HASSAN STILL MINISTER OF FINANCE AND WAS DELIVERING FREQUENT ACCUSATIONS AGAINST MILL OWNERS THROUGH MEDIUM OF PRESS RATHER THAN COMMITTING TO SOLVE SURPLUS YARN PROBLEM PRAGMATICALLY. RESULT OF THESE EFFORTS SOMEWHAT SIMILAR THOSE OF USDA PRICE SUPPORT PROGRAMS. LONG-RUN POLICY BY GOP IN COTTON TEXTILE SECTOR CLEARLY THAT OF BALANCING AND MODERNIZATION AND AVOIDANCE OF EXCESSIVE RELIANCE ON SPINNING AND YARN EXPORTS. GOP DEVELOPMENT BANKS NOW REPORTEDLY LIMITING CREDIT TO TEXTILE INDUSTRY TO THOSE EQUIPMENT PURCHASES WHICH BALANCE EXISTING SPINNING CAPACITY WITH WEAVING AND/OR FINISHING EQUIPMENT AND TO COMPLETELY INTEGRATED PROJECTS. THUS, LONG RUN RESULT OF TEXTILE CRISIS EXPECTED TO BE MORE BALANCED DEVELOPMENT OF IMPORTANT TEXTILE INDUSTRY.
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NOTE BY OC/T: # AS RECEIVED.

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